Exhibit G

Auditor's Opinions and Financial Statements

District of Columbia Teachers' Retirement Fund

Financial Statements and Schedules

(with Independent Auditor's Report Thereon)

Years Ended September 30, 2002 and 2001

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND

FINANCIAL STATEMENTS AND SCHEDULES
YEARS ENDED SEPTEMBER 30, 2002 AND 2001

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Independent Auditors' Report

Board of Trustees
District of Columbia Teachers' Retirement Fund

We have audited the accompanying statements of net assets of the District of Columbia Teachers' Retirement Fund (the Fund), a Pension Trust Fund of the Government of the District of Columbia, as of September 30, 2002 and 2001, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, these financial statements only present the Fund and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the District of Columbia Teachers' Retirement Fund as of September 30, 2002 and 2001, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and*

Local Governments: Omnibus, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended September 30, 2002.

The information on schedules 1 and 2 and the management's discussion and analysis are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on schedules 3 through 5 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Washington, DC
December 31, 2002

Thompson, Cobb, Bazilio & Associates, P.C.

This discussion and analysis provides an overview of the financial activities of the District of Columbia Teachers' Retirement Fund (the "Fund") as of and for the fiscal year ended September 30, 2002. This discussion and analysis should be read in conjunction with the statements, notes, and supplementary information.

The Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," was effective for the Fund's fiscal year 2002 financial statements. Statement No. 34 requires this Management's Discussion and Analysis.

The District of Columbia Retirement Board (the "Board") is an independent agency of the District of Columbia government. The Board is responsible for managing the assets of the Fund and of the District of Columbia Police Officers and Fire Fighters' Retirement Fund. As authorized by DC Code, the Board commingles the assets of the two Funds for investment purposes. The Board proportionately allocates the investment activity and the administrative expenses of the Board between the two Retirement Funds. Other agencies of the District of Columbia government administer pension benefits, and the related administrative expenses are borne by those agencies.

FINANCIAL HIGHLIGHTS

The financial highlights are:

- Net Assets Held in Trust for Pension Benefits as of September 30, 2002 were $733,363.
- Net Assets Held in Trust for Pension Benefits decreased during fiscal year 2002 by $45,391.
- The Net Investment Loss for fiscal year 2002 was $65,976.
- The District of Columbia government was not required to contribute to the Fund for fiscal year 2002.
- The Fund's share of administrative expenditures for fiscal year 2002 was $989.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

This discussion and analysis is an introduction to the basic financial statements and schedules. The basic financial statements include two statements, notes, and supplementary information.

Statements of Net Assets – present the assets, liabilities, and net assets held in trust for pension benefits as of the end of the current and prior fiscal year.

Statements of Changes in Net Assets – presents the additions to and deductions from the net assets during the current and prior fiscal years. The statements present the major sources of additions and uses of deductions. Over time, the net increase or decrease in net assets may serve as a useful indicator of whether the financial position of the Fund as a whole is improving or deteriorating.

Notes to Financial Statements – presents various disclosures to augment the two statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments.

Supplementary Information – presents additional information about employer contributions, actuarial assumptions, additions, and deductions for the last 10 fiscal years, and investments.

FINANCIAL ANALYSIS

The Fund had Net Assets Held in Trust for Pension Benefits as of September 30, 2002 of $733,363, which is a decrease of $45,391 from the end of the prior fiscal year.

Net Assets

A summary of the Net Assets Held in Trust for Pension Benefits is below.

	2002	2001	Increase (Decrease)	Percent
Investments, net of accrued interest receivable and liabilities	$ 735,863	$ 780,580	$ (44,717)	(5.73)%
Contributions receivable	1,475	1,349	126	9.34%
Due from (to) District	(175)	(575)	400	(69.57)%
Due (to) Federal Government	(3,800)	(2,600)	(1,200)	46.15%
Net Assets	$ 733,363	$ 778,754	$ (45,391)	(5.83)%

Changes in Net Assets

The Net assets decreased during fiscal year 2002 by $45,391. The decrease primarily resulted from equity markets. A summary of the change is below.

	2002	2001	Increase (Decrease)	Percent
Employee contributions	$ 25,374	$ 24,047	$ 1,327	5.52%
Employer contributions	-	200	(200)	(100.00)%
Net investment income (loss)	(65,976)	(104,536)	38,560	(36.89)%
Total Additions	(40,602)	(80,289)	39,687	(49.43)%
Benefit payments	3,800	2,600	1,200	46.15%
Administrative expenses	989	822	167	20.32%
Total Deductions	4,789	3,422	1,367	39.95%
Net change in net assets	$ (45,391)	$ (83,711)	$ 38,320	(45.78)%

Based on the funding formula contained in DC Code, the District of Columbia government was not required to make an employer contribution in fiscal year 2002.

The Fund pays for pension benefits earned since June 30, 1997. As a result, the pension benefit expense will be increasing. The Fund also pays for increases in pension benefits that result from changes in the provisions of the plan.

As authorized by law, the District of Columbia Retirement Board has pooled the assets of the Fund and the Police Officers and Firefighters' Retirement Fund (the "Total Fund") for investment purposes.

The fair value of the Total Fund decreased slightly (2.8%) from fiscal year end 2001 due primarily to a downturn in world equity markets. The rate of return earned on Total Fund investments for fiscal year end 2002 of negative 7.9% on a market value basis was greater than last fiscal year's return. An overweight to U.S. fixed income helped the Total Fund to withstand some of the turmoil in the U.S. and international equity markets.

The downturn in equity markets that began in 2000 continued, as world stock markets declined even further during fiscal year 2002. The Russell 3000 Index, a broad-based U.S. equity index, declined 18.8% during the period. The S&P 500 Index lost 20.5%. The MSCI EAFE Index, representing non-U.S. developed equity markets, was lower by 15.5% during the period.

The Total Fund had approximately 38% of its total value invested in domestic equity securities, which earned a return of negative 16.9% for the fiscal year. The current bear market is proving to be one of the worst in the history of U.S. equity markets. The S&P

500 Index declined 43.7% (cumulative) from April 2000 through September 2002. Approximately 15% of the Total Fund was invested in international equity securities, whose return essentially matched the performance return of the MSCI EAFE Index for the fiscal year. A surge in government bond prices helped drive the Lehman Aggregate Index to a 4.6% gain the last fiscal quarter of 2002, its best quarterly performance since 1995. For the one year period ended September 30, 2002, the performance of the Total Fund assets invested in fixed income securities (almost 42%) lagged the return of the Lehman Aggregate Index, returning 7.4% versus the benchmark return of 8.6%.

ADDITIONAL INFORMATION

These financial statements present the finances of the Fund in accordance with generally accepted accounting principles. Questions about these financial statements or other inquiries should be addressed to the Executive Director, District of Columbia Retirement Board, 1400 L Street NW, Suite 300, Washington, DC 20005.

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2002 and 2001
($000s)

	2002	2001
ASSETS		
Equity in pooled investments under Master Trust Agreement, at fair value (Note 4)	$786,823	$825,606
Accrued interest receivable	3,902	3,581
Benefit contributions receivable	1,475	1,349
Due from District of Columbia Government	72	-
Total assets	792,272	830,536
LIABILITIES		
Liabilities under securities lending transactions	54,372	48,036
Accounts Payable - investment expense	490	571
Due to Federal Government	3,800	2,600
Due to District of Columbia Government	247	575
Total liabilities	58,909	51,782
Net Assets Held in Trust for Pension Benefits	$733,363	$778,754

The accompanying notes are an integral part of these financial statements.

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2002 and 2001
($000s)

	2002	2001
Additions		
Contributions:		
District government	$ -	$ 200
District employees	25,374	24,047
Total contributions	25,374	24,247
Investment income:		
Net depreciation in fair value of investments	(86,692)	(129,875)
Interest and dividends	24,242	31,112
	(62,450)	(98,763)
Less:		
Investment expenses	1,922	1,908
Interest expense on securities lending transactions	1,604	3,865
Net investment loss	(65,976)	(104,536)
Total additions	(40,602)	(80,289)
Deductions		
Benefit payments	3,800	2,600
Administrative expenses	989	822
Total deductions	4,789	3,422
Net Decrease in Net Assets	(45,391)	(83,711)
Net Assets Held in Trust for Pension Benefits		
Beginning of year	778,754	862,465
End of year	$ 733,363	$ 778,754

The accompanying notes are an integral part of these financial statements.

NOTE 1: ORGANIZATION

The District of Columbia Teachers' Retirement Fund (the Fund) was established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96-122, D. C. Code § 1-701 et seq.). The Fund provides assets to pay pension benefits to all teachers employed by the Board of Education, including certain other educational employees in the public day schools and certain eligible educational employees in the public charter schools of the District of Columbia. The Reform Act also established the District of Columbia Retirement Board (the Board) and the District of Columbia Police Officers and Fire Fighters' Retirement Fund (the Police and Fire Fund).

The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act, Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred the District of Columbia Judges' Retirement Fund to the United States Federal Government (the Federal Government). The Revitalization Act also transferred significant assets and liabilities of the Fund and the Police Officers and Fire Fighters' Retirement Fund (collectively, the District Retirement Funds) to the Federal Government.

Concurrently, the District of Columbia Retirement Protection Act of 1997 (the Retirement Protection Act, Subtitle A of the Revitalization Act) transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government and the assets of the Fund managed by the Retirement Board are components of the same single employer defined benefit pension plan.

As required by the Retirement Protection Act, the Council of the District of Columbia (the Council) enacted the Police Officers, Fire Fighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (September 18, 1998, D.C. Law 12-152, § 101, 45 DCR 4045; D.C. Code § 1-901.01 et seq.). This Act (the Replacement Act) established the pension benefits for employee service earned after June 30, 1997, and provides for full funding of the benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia Government (the District) that is responsible for managing the assets of the District Retirement Funds. Although the assets of the funds are

NOTE 1: ORGANIZATION (Continued)

commingled for investment purposes, each Fund's assets may only be used for the payment of benefits to the participants of that Fund and certain administrative expenses.

The Fund is included in the District's Comprehensive Annual Financial Report as a pension trust fund.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

District of Columbia Retirement Board - The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected by the active and retired participants. Included are one active and one retired representative each from the police officers, firefighters, and teachers. The six employee representatives are elected by their respective groups of active and retired employees. In addition, the District's Chief Financial Officer serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, thoroughly and comprehensively reviews all issues brought before it. The Board has six standing committees, including Benefits, Emerging Enterprise, Fiduciary, Investment, Legislative, and Operations. To implement its policies, the Board retains the executive director and other staff to be responsible for the day-to-day management of the District Retirement Funds.

Other Administration - The District Board of Education makes findings of fact, conclusions of law, and decisions regarding involuntary retirement, survivor benefits and annual medical and income reviews. The Office of Pay and Retirement Services (OPRS) within the D.C. Office of Financial Operations and Systems, Office of the Chief Financial Officer, receives retirement orders for retirement benefit calculations for all active plan members found eligible for retirement and carries out the day-to-day processing of retirement benefits. OPRS also processes employee requests for refunds of contributions.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (Continued)

Eligibility - Permanent, temporary and probationary teachers and certain other employees of the District of Columbia public day schools become members automatically on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. Substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2001.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the Council. For employees hired before November 16, 1996, the annuity is equal to the average salary, as defined, multiplied by 1.5% for each of the first five years of service, 1.75% for each of the second five years and 2% for each additional year. For employees hired on or after November 16, 1996, the annuity is equal to the average salary, as defined, multiplied by 2% for each year of service. The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the increase may not exceed 3% for participants hired on or after November 16, 1996.

Participants may select from among several survivor options. Participants who have 5 years of school service (work for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Disability benefits are calculated under a guaranteed minimum formula.

Optional retirement is available for teachers who have a minimum of 5 years of school service and who achieve the following age and length of service requirements:

at age 62 with 5 years of service;
at age 60 with 20 years of service; and
at age 55 with 30 years of service;

or at any age with 30 years of service, if hired by the school system on or after November 16, 1996.

Employees who are involuntarily separated other than for cause and who have five years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

($000s)

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (Continued)

The annuity is reduced if at the time of its commencement the participant is under the age of 55.

Participant Data - For the years ended September 30, 2002 and 2001 the number of participating employees was as follows:

	2002	2001
Retirees and beneficiaries receiving benefits (post 6/30/97)	664	350
Active vested plan members	4,339	4,663
Active non-vested plan members	2,058	1,383
Total	7,061	6,396

Contributions - Fund members contribute by salary deductions at rates established by D.C. Code. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Fund members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal years 2002 and 2001 were equal to the Fund's independent actuary's recommendation.

Contribution requirements of the Fund members are established at D.C. Code § 38-2001.01 et seq. (2001 Ed.) and contribution requirements of the government of the District of Columbia are established at D.C. Code 1-907.02 (2001 Ed.). Contribution requirements may be amended by the Council. Administrative costs are financed through investment earnings.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized as compensation is earned by fund members.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards - During fiscal year 2002, the Fund adopted GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. The impact was on the presentation of the notes to the financial statements and the inclusion of management's discussion and analysis.

Employer contributions to the Fund are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Method Used to Value Investments - Investments are reported at fair value, and reflect transaction costs, such as brokerage commissions and other costs normally incurred in a sale, if such costs are determinable. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rate. Collateralized mortgage obligations are stated at fair value. The fair value of real estate investments is based on independent appraisals, when available, and the fair value of limited partnership interests in real estate investments is based on reported estimated fair values. Investments that do not have established market values are reported at estimated fair value.

Actuarial Data - The Fund uses the Aggregate Actuarial Cost method to determine the annual employer contribution. The excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the sum of the actuarial value of assets and the actuarial present value of employee contributions is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit date. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the actuarial present value allocated to a valuation year is called the normal cost. The actuarial accrued liability is equal to the actuarial value of assets.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net assets held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investment Expenses - The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund.

The total investment expenses borne by the Fund was $1,922 and $1,908 in 2002 and 2001, respectively.

NOTE 4: INVESTMENTS

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the District Retirement Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C). The District Retirement Funds are authorized to be invested in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code § 1-907.01 (2001 Ed.), the Board shall not invest in debt instruments of the District, the Commonwealth of Virginia or State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions.

Master Trust - The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1-903.03(b), (2001 Ed.), with a master custodian under a master trust arrangement

($000s)

NOTE 4: INVESTMENTS (Continued)

(the Master Trust). Using an investment pool, each Fund has equity in the pool. District and employee contributions are deposited to the respective Retirement Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate equity in the pool. The fair values of investments of the Investment Pool as of September 30, 2002 and 2001 are as follows:

	2002	2001
Investments categorized (A)		
Investments - held by Board's agent in Board's name		
Cash and cash equivalents	$ 325,956	$ 472,435
Equities	1,027,663	1,063,641
Fixed income securities (of which $17,511 and $9,381 in 2002 and 2001, respectively, is on securities loan with securities and other collateral)	793,267	645,862
Payable on investment transactions	(450,700)	(422,100)
Subtotal	1,696,186	1,759,838
Investments not categorized (B)		
Real estate	-	4,877
Investments held by broker-dealer under securities loans with cash collateral:		
Equities	36,021	38,235
Fixed income security	90,542	74,785
Securities lending collective investment pool	134,534	115,813
Subtotal	261,097	228,833
Total	$1,957,283	$1,993,548

(A) All categorized investments are Category 1 risk.

(B) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

NOTE 4: INVESTMENTS (Continued)

Investments are categorized by level of custodial credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the entity's name.

At September 30, 2002, the Fund's share of the Investment Pool was $790,725, including cash collateral of $54,372 and accrued interest receivable. At September 30, 2001, the Fund's share of the Investment Pool was $829,187, including cash collateral of $48,036 and accrued interest receivable.

Securities Lending Transactions - District statutes and the Board's policies permit the District Retirement Funds to participate in securities lending transactions via a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

During 2002 and 2001, the master custodian, at the direction of the Board, lent the District Retirement Funds' equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

NOTE 4: INVESTMENTS (Continued)

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality Fund). Because the Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Fund's position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2002 or 2001.

The average duration of the investment pool as of September 30, 2002 and 2001 was 61 days, and the average weighted maturity was 153 and 193 days, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During 2002 and 2001, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2002 and 2001.

On September 30, 2002 and 2001, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board were $152,402 and $147,142, respectively, as of September 30, 2002, and $125,382 and $122,402, respectively as of September 30, 2001. During 2002 and 2001, the Master Trust's gross earnings from securities lending transactions totaled $4,614 and $9,433, respectively. The income (net of amortization and accretion), the net

NOTE 4: INVESTMENTS (Continued)

realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $2,645, $478, and $3,123, respectively, in 2002, and $7,807, $1,500, and $9,306, respectively, in 2001. The Fund's share of the net earnings on securities lending transactions totaled $343 and $315 in 2002 and 2001, respectively.

Derivative Investments - Derivatives are generally defined as contracts whose value depends on, or *derives* from, the value of an underlying asset, reference rate, or index. Structured financial instruments are also defined as derivatives, such as mortgage-backed securities, asset-backed securities, and floating rate notes. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty), or to the creditworthiness of derivative securities, such as mortgage-backed, asset-backed, floating rate, and stripped securities. Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2002 and 2001, the Retirement Funds, in accordance with the policy of the Board, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. These derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Retirement Funds used ABS, CMOs, mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and TBAs primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U.S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset-backed and mortgage-backed pools and securities is managed by monitoring the duration of the investments. Credit risk is

NOTE 4: INVESTMENTS (Continued)

managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

Floating rate notes (securities which pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on the security. Upward movements in interest rates do not adversely affect floating rate notes as they do fixed rate notes, allowing floating rate notes to function as a hedge against upward changes in interest rates.

The Retirement Funds invests in structured notes with step-up coupons that offer higher yields than comparable U.S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates which start at one rate and then step-up to higher rates on specific dates. The Retirement Funds also contains stripped/zero coupon bonds, which are purchased at a discount and do not pay any interest.

TBAs are used by the Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The TBAs used are assumed to be similar in duration and convexity to mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers. Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by

NOTE 4: INVESTMENTS (Continued)

limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Equity index futures are used in at least one of the commingled funds used by the Retirement Funds in order to gain exposure to U. S. equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the Retirement Funds. Credit risk is managed by dealing with the futures exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Warrants are used by the Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost. Credit risk is similar to the underlying equity and/or bond holdings.

The Retirement Funds also holds derivative instruments indirectly by participating in pooled, commingled, mutual, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

The proportion of derivative investments in the Retirement Funds varies throughout the year. Further information regarding balances throughout the year is not available.

($000s)

NOTE 4: INVESTMENTS (Continued)

The Retirement Funds' aggregate portfolio included the following derivative investments, at fair value, at September 30, 2002 and 2001:

	2002	2001
Mortgage-backed security pools and securities	$109,588	$ 45,123
Collateralized mortgage obligations	52,578	21,672
Asset backed securities	13,728	71,872
Floating rate notes	5,402	-
Mortgage backed securities forward contracts	335,415	203,982
Inflation index bonds	4,795	-
Structured notes (including stripped securities)	55,969	3,377
Foreign currency futures/forward contracts, net	(2,100)	-
Stock performance index futures fund	67,660	85,270
Options	(3,068)	-
Total	$639,967	$431,296

SCHEDULE 1

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)
($000s)

Fiscal Year ended September 30	Annual Required Contribution	Percentage Contributed
2002	$ -	100%
2001	200	100%
2000	10,700	100%
1999	18,600	100%

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND
SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS
(Unaudited)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	September 30, 2002
Valuation date	October 1, 2000
Actuarial cost method	Aggregate
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.3%-8.8%
Includes inflation at	7.25%
Cost-of-living adjustments (COLAs)	5%[1]

(1) Post-1996 hires have COLAs capped at 3.00%

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

SCHEDULE 3

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND
SCHEDULE OF REVENUE BY SOURCE AND EXPENSES BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)
($000s)

REVENUE BY SOURCE

Fiscal Year	Employee Contributions	Employer Contributions	Interest and Dividends	Net Appreciation in Fair Value of Investments	Investment, Interest and Administrative Expenses	Total
2002	$25,374	$ -	$35,226	$ (129,669)	$ (6,566)	$ (7,019)
2001	24,047	200	31,112	(129,875)	(6,595)	(81,111)
2000	23,646	10,700	28,896	78,536	(6,681)	135,097
1999	21,537	18,600	26,573	105,295	(4,694)	167,311
1998	20,385	9,700	21,109	(9,756)	(3,915)	37,523
1997	19,405	88,100	65,682	363,256	(14,655)	521,788
1996	20,904	111,000	56,118	119,063	(4,691)	302,394
1995	23,564	87,100	51,014	161,434	(4,398)	318,714
1994	23,784	98,600	50,310	(7,216)	(4,202)	161,276
1993	21,375	98,800	46,169	117,472	(3,381)	280,435

EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Total
2002	$ 3,800	$ -	$ 3,800
2001	2,600	-	2,600
2000	1,600	-	1,600
1999	700	-	700
1998	200	479	679
1997	144,007	408	144,485
1996	134,803	1,175	135,978
1995	115,415	1,294	116,709
1994	110,620	1,471	112,091
1993	102,667	1,713	104,380

Note: Contributions were made in accordance with actuarially determined contribution requirements.

The Revitalization Act of 1997 made significant changes to the administration of the Fund. Therefore, comparisons of pre-Revitalization Act information to post-Revitalization Act information may not be meaningful.